

Message Text

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ACTION PM-04

INFO OCT-01 EA-07 NEA-10 ISO-00 CIAE-00 DODE-00 H-02

INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 OMB-01 AID-05 TRSE-00 /070 W

----- 048680

R 130731Z AUG 75

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 2070

INFO AMEMBASSY JIDDA

C O N F I D E N T I A L SEOUL 6173

E.O. 11652: GDS

TAGS: MASS, KS

SUBJECT: PROPOSED WORKING FUND FOR FOREIGN MILITARY SALES

REF: A) STATE 186121; B) SEOUL 4286; C) SEOUL 5220

1. EMBASSY/JUSMAG-K HAVE EXAMINED DOD PROPOSAL TO ESTABLISH WORKING FUND TO FACILITATE PROMPT PAYMENT FOR FMS PURCHASES. PRESUME FMS CASH SALES (NOT CREDIT OR GUARANTEES) AT ISSUE. (WE CARRY \$21.9 MILLION IN FMS CASH SALES FOR CY 73, 52.8 FOR 74, AND 116.6 ESTIMATED FOR 75).

2. WE BELIEVE PROPOSAL UNSUITABLE FOR KOREA. LIKEWISE, WE DO NOT THINK ROKG LIKELY TO FAVOR PRIOR DEPOSIT CONCEPT. OUR RATIONALE IS THAT ROK FINANCIAL POSITION IS QUITE DIFFERENT FROM FRG AND SAUDI ARABIA. ROKG RECEIVES ECONOMIC ASSISTANCE FROM FRG AND IS SEEKING ASSISTANCE FROM SAUDI ARABIA. ROK NET FOREIGN ASSETS ARE NEGATIVE, AND GROSS RESERVES ARE ONLY SLIGHTLY OVER \$1 BILLION. WHILE ROKG CAN AND SHOULD PAY FMS SALES BILLINGS WHEN DUE, IT DOES NOT HAVE ADEQUATE FOREIGN EXCHANGE CUSHION TO ENABLE PRIOR DEPOSIT EVEN THOUGH INTEREST WOULD BE EARNED.

3. NEITHER EMBASSY NOR JUSMAG-K HAD BEEN ADVISED BEFORE REF. (A)

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THAT ANY PAYMENTS DUE HAD BEEN DELAYED. EMBASSY/

JUSMAG-K PREPARED TO URGE ROKG EXPEDITE PAYMENT FOR OVERDUE BILLINGS AND MAKE FUTURE PAYMENTS WHEN DUE. FOR THIS WE REQUIRE DETAILED INFORMATION ON OVERDUE FMS CASH SALES PAYMENTS. (NOTE ROK MND CLAIM PENDING SINCE JUNE FOR \$6,540 FOR REIMBURSEMENT OF 10 PERCENT MAP DEPOSIT FOR UNDELIVERED ITEMS, PER REFS B AND C. HOWEVER, ASSUME THIS CLAIM CANNOT BE HONORED THROUGH PARTIAL OFFSET OF FMS PAYMENTS DUE INASMUCH AS MAP DEPOSIT AND FMS SALES ACCOUNTS ARE QUITE SEPARATE.)

4. COMMENT. BECAUSE ROK POLICY LEVEL OFFICIALS ARE VERY ALERT TO MAINTAINING ROKG CREDIT STANDING, WE ARE ALMOST CERTAIN THAT THEY WOULD TAKE PROMPT ACTION TO ENSURE TIMELY PAYMENT IF WE POINTED OUT ANY SPECIFIC PROBLEM CASES.
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